AVCORP

annual report 2002

report to shareholders

We are pleased to provide this annual report to our shareholders.

For the third consecutive year, we open this report by saying that the board of directors and the management team believe that there are many good reasons to be optimistic about Avcorp. We are in a dynamic market with many exciting opportunities. We have a sound strategy and all indicators point to successful implementation albeit in a challenging economic and geopolitical environment. We have the people, the equipment and the commitment necessary to meet our targets of delivering shareholder value.

However, 2002 was a very difficult period with 28% decline in annual revenue associated with reductions in aircraft production rates. The company is in the process of financial restructuring which, at the time of writing this report, has not been completed although good progress has been made. This financial restructuring, when completed, is expected to position the company to be able to face and mitigate risks associated with the business and capitalize on the hard work and positive progress of the past several years.

We take this opportunity to thank our stakeholders for their continued support.

David Levi Chairman	**John H. Nicholson** President and Chief Executive Officer

management discussion & analysis

Description of Business

leading aerospace manufacturer

Avcorp Industries Inc. (the "Company") is a leading provider of aircraft parts, assemblies and complex structures to aircraft manufacturers. The Company's objective in order to deliver value to each of its stakeholders—shareholders, customers, lenders, employees and the community—is to be a growing, profitable business through strategies of:

- organic growth in major integrated aerostructures;
- growth and diversification through mergers and acquisitions;
- lean manufacturing principles; and
- strategically focused outsourcing.

Financial Overview

2002 was a difficult year...

Year-End Change

The Company changed its year-end from September 30 to December 31 to conform with common practice in the aerospace industry.

Five-Year Results

The following table provides selected 12-month and 15-month financial information for the five periods to December 31, 2002. This information is unaudited, not adjusted for any unusual events and, in the opinion of management, presents a fair statement of the results of operations for the periods presented. Period-to-period comparisons of the Company's financial results are not necessarily meaningful and should not be relied upon as indication of future performance.

Five-Year Results For Continuing Operations
unaudited, expressed in thousands of Canadian dollars except per share amounts

	15-month period ended December 31	years ended September 30			
	2002	2001	2000	1999	1998
Operations					
Revenues	**71,977**	79,911	65,346	80,701	54,711
EBITDA[1]	**(1,555)**	7,188	(4,256)	(7,066)	2,715
Operating earnings (loss) before tax	**(8,428)**	789	(10,569)	(11,584)	665
Net earnings (loss)	**(8,548)**	686	(10,704)	(11,734)	797
Financial Position					
Net capital expenditures	**1,379**	499	588	3,382	21,954
Total assets	**57,968**	67,881	74,670	90,331	86,856
Bank indebtedness and long-term debt	**31,858**	34,435	46,191	46,378	37,958
Shareholders' equity	**13,693**	17,908	13,639	23,417	35,053
Ratio debt/equity	**2.33**	1.92	3.39	1.98	1.08
Shares outstanding at period end	**18,697**	14,612	13,301	13,192	13,450
Book value per share	**0.73**	1.23	1.03	1.78	2.61

1 EBITDA = earnings before interest, taxes, depreciation and amortization

Quarterly Results

The following table provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2002. This information is unaudited, not adjusted for any unusual events and, in the opinion of management, presents a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of the Company's financial results are not necessarily meaningful and should not be relied upon as indication of future performance.

Quarterly Results For Continuing Operations

unaudited, expressed in thousands of Canadian dollars except per share amounts

for the three months ended	2002				2001			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenues	13,330	13,644	14,393	15,400	15,210	21,116	20,770	20,026
EBITDA[1]	(1,054)	(3,683)	981	1,034	1,127	1,772	1,941	1,602
Net earnings (loss)	(2,382)	(5,184)	(309)	(442)	(232)	187	253	86
EBITDA per share								
Basic	(0.06)	(0.20)	0.06	0.07	0.08	0.13	0.15	0.12
Fully diluted	(0.06)	(0.20)	0.06	0.07	0.08	0.13	0.15	0.12
Net earnings (loss) per share								
Basic	(0.13)	(0.28)	(0.02)	(0.03)	(0.02)	0.01	0.02	0.01
Fully diluted	(0.13)	(0.28)	(0.02)	(0.03)	(0.02)	0.01	0.02	0.01

1 *EBITDA = earnings before interest, taxes, depreciation and amortization*

2002 and 2001 Results

2002 was a year of facing challenging market conditions while at the same time continuing focus on meeting commitments to customers and investing in improved manufacturing methods and new programs. For the 15-month period to December 31, 2002, the Company recorded a loss of $8.5 million and a cash outflow from operations of $6.3 million, although within these results for continuing operations are:

- an annualized 28% reduction in revenue;
- $1.8 million expensed in lean manufacturing, training, and non-discretionary projects required by customers; and
- $2.1 million in charges relating to restructuring, product configuration, and costing estimate adjustments.

During the 15-month period to December 31, 2002, the Company:

- raised $4.8 million from the issuance of shares;
- sold its Quebec-based operations for net book value in the amount of $6.7 million—proceeds were comprised of $5 million cash and a note receivable of $1.674 million due by September 30, 2004;
- outsourced its information technology systems to improve service levels, raising $1.1 million;
- reduced long-term debt by $8.9 million;
- invested $1.5 million in an aircraft manufacturer; and
- invested $3.4 million as development costs in new programs.

Revenue

Revenue for the 15-month period ended December 31, 2002 was $71.9 million, representing an annualized 28% decrease from the 12-month period ended September 30, 2001. Decreases were broad based across all customers and major product lines as customers reduced their production rates. The Company's two principal customers, Bombardier Aerospace and Boeing Commercial Airplane Group, accounted for 92% of 2002 sales, unchanged from 2001.

Gross Profit

Gross profit decreased to 7.2% for the 15-month period to December 31, 2002 from 15.9% for the 12-month period ended September 30, 2001 resulting primarily from fixed costs remaining constant as revenues declined and the Company's investment in lean manufacturing.

Sales General and Administration

For the 15-month period ended December 31, 2002, sales, general and administration expenses increased by $1.1 million over the 12-month period ended December 31, 2001. As a percentage of revenue, sales, general and administration increased from 7.0% to 9.4%, attributable to restructuring and training costs.

Earnings Before Interest, Taxes, Depreciation and Amortization

Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA) were $(1.5) million for the 15-month period ended December 31, 2002 and $7.2 million during the 12-month period ended September 30, 2001.

Interest

Total interest on both short- and long-term debt for the 15-month period ended December 31, 2002 was $4.1 million and $3.9 million during the 12-month period ended September 30, 2001. Interest expense continued to decrease as long-term debt was paid off. All interest was expensed during the period.

Significant Items

15 months ended December 31, 2002

CRJ700 Contract
The Company uses program accounting for the recording of gross margin on the CRJ700 contract. Revenue is recognized in relation to units delivered, with the cost of sales being determined by applying the ratio of total estimated production costs for a predetermined number of program shipsets over the estimated total revenue for those shipsets. The estimated program gross margin was reduced by $0.5 million in 2002 as a result of a change in total estimated production costs.

Restructuring Costs
Restructuring costs of $644,000 were charged to operations in the final six months of the period, and $287,000 in the first nine months of the period.

Product Configuration
During the year the Company commenced an audit of its drawing configuration control for certain programs. The estimated cost of this audit is $0.6 million. This amount was provisioned for in the period's results.

Discontinued Operations
The Company sold its Quebec-based operations effective June 30, 2002 for net book value (excluding cash) of approximately $6.7 million. Proceeds of $5 million were received by the Company on July 31, 2002 and the balance of $1.674 million is payable pursuant to a note receivable due September 30, 2004. This transaction follows the strategic direction of the business. The proceeds from the sale were used to reduce the Company's indebtedness under its former credit facility. The results of this operation are disclosed in note 3 to the Company's audited financial statements.

12 months ended September 30, 2001

None.

Income Taxes

The Company's tax provision comprises large corporation tax of $120,000 (2001 - $103,000). The Company has available non-capital tax loss carry-forwards totalling approximately $7.9 million. In addition, $22.9 million in unclaimed capital cost allowance and $7.7 million in unutilized research and development costs are available to reduce future taxable earnings.

Net Earnings

The net loss for the 15-month period to December 31, 2002 was $8.5 million compared to net earnings of $0.7 million in the 12-month period ended December 31, 2001.

Liquidity and Capital Resources

The Company ended the period with a bank balance utilization of $6.0 million compared to a bank balance position of $595,000 at the end of 2001.

Cash utilization from operating activities, before consideration of changes in non-cash items relating to operating activities, was $6.8 million for the 15-month period ended December 31, 2002, compared to cash provided of $4.8 million for the 12-month period to September 30, 2001.

Non-cash operating assets and liabilities provided $44,000 of cash compared to providing $5.7 million in the previous year.

During 2002, continuing operations purchased capital assets totaling $1.4 million, while outsourcing of non-core systems provided $1.1 million.

Investing activities provided $3.2 million primarily as a result of the sale of its Integrated Products Division ($5.0 million) and information technology infrastructure ($1.1 million), net of an investment in Eclipse Aviation ($1.5 million) and purchase of equipment ($1.4 million).

Financing activities provided $1.9 million of cash after $6.0 million utilization of bank line. In addition, $8.9 million of long-term debt was retired. During the year, the company issued 3,990,560 common shares, which provided net proceeds after expenses of $4.8 million. The proceeds of the financing were used for general working capital and for investment purposes.

In January 2003, the Company's former bank demanded full payment of all its debt, approximately $12.5 million, and this debt has been repaid in full. The Company is currently operating without an operating credit facility, with short-term financing from a chartered bank and with short-term loans from major shareholders (see note 1 to the audited financial statements). The Company is currently engaged in a financial restructuring plan to strengthen its financial resources. This plan consists of the following four financial restructuring transactions:

- re-negotiation of debt with three institutional lenders;
- sale and leaseback of the Company's factory and head office;
- establishment of a new operating facility with an asset-based lender to provide working capital; and
- potential equity offerings.

continued strong delivery & quality

Background

The Company reviews its financial results on a monthly basis and periodically reviews order backlog, delivery and quality performance, productivity, supply chain initiatives, working capital utilization and industry merger and acquisition activities as indicators of progress towards achieving desired results.

The Company has made significant progress in meeting its objective, as indicated by continued strong delivery and quality performance, increasing order backlog, improving productivity, supply chain initiatives and improved working capital utilization.

Delivery and Quality Performance

The Company maintained good program delivery and quality performance throughout 2001 and 2002.

Order Backlog

The Company operates with "general terms agreements" with its customers. These agreements are typically for five years or longer. In the case of Boeing and Cessna, the Company is a sole-source provider, whereas most of the Bombardier products are dual sourced by Bombardier.

The Company defines order backlog as the value of purchase orders it expects to receive from these contracts based on manufacturers' projections and current degrees of exclusivity. Order backlog has increased over the past four years from $265 million to $487 million as the Company has signed new agreements with Cessna and renewed agreements with Bombardier and Boeing.

Productivity

The Company uses an adjusted revenue per employee as an indicator of changes in productivity. Based on this indicator, productivity improved in 1999, 2000 and 2001. A dip in productivity in 2002 was caused by disruptions associated with changing the factory floor layout into cell-based manufacturing and assembly, higher than normal training and productivity improvement project work associated with the lean manufacturing initiative, a strike at Bombardier and slowing production rates. The current productivity indicators show improvement.

Supply Chain Savings

Supply chain initiatives, including supplier development, changes to manufacturing methods and supplier managed inventory, were commenced in 2002 and their resultant cost savings measured are on a case-by-case basis.

Working Capital Ulitization

Working capital is defined as current assets minus current liabilities, and working capital utilization (turns) is defined as a four quarter rolling average of quarterly revenue annualized divided by quarter end working capital. Working capital utilization has improved over the last four years, although there was no improvement in 2002 as a result of lower than normal inventory turns as production rates (and hence use of inventory) reduced.

Financial Resources

The Company has invested in its chosen strategies of organic growth, lean manufacturing and strategic sourcing. No suitable merger and acquisition opportunities have been identified to date. Management continues to believe that these investments will provide satisfactory returns in the future, although the Company's financial resources and strength have been depleted through reductions in shareholder equity and high debt. Management believes that the significant invest

Financial Resources *continued*

ments necessary to better position the Company in the aerospace industry have been made and that the current financial restructuring program, described earlier, is expected to position the Company to be able to face and mitigate risks associated with business and capitalize on the hard work and positive progress of the past several years.

Non-Financial Resources

The Company's non-financial resources relate to the Company's human resources, operating equipment, systems, technologies and processes. The Company outsources all of its information technology resources. The Company does not have any extended enterprise relationships such as special purpose entities or joint ventures.

Human Resources

The Company has the appropriate human resources at all levels of the organization. The board of directors has considerable investment and financial expertise. The management team, represented on the board with two directors, is experienced in the industry, in all aspects of operations and has been formed over the past three years from both external recruitment and internal promotions. All employees have appropriate qualifications and experience to perform their duties and the Company provides ongoing training and work opportunities for employee growth.
The number of employees has been reduced as demand for products fell throughout 2002. The Company's compensation system consists of wages and salaries, benefit programs, results-based incentive pay and stock options. The Company continually reviews its compensation practices to ensure it can attract and retain employees with the necessary skills.

Equipment, Systems, Technologies and Processes

The equipment, technologies, systems and processes—consisting of a Baan enterprise resource planning (ERP) system, computer-aided design systems, approved quality assurance procedures, modern machining centres, presses, routers, anthropomorphic robots, assembly jigs and process equipment, chemical processing, painting and metal bonding facilities—are sufficient to meet market demands for conventional aircraft parts and structures. The Company reviews emerging technologies and periodically considers its opportunities for research and development programs in such fields as advanced composites, high-speed machining and further automation of assembly.

Risk Assessment

The principal risks that the Company faces are summarized as follows:

- reduction in production rates of aircraft manufacturers;
- actions by competitors; and
- potential failure to achieve cost reduction objectives.

The Company's view is that, when the current financial restructuring is complete, the Company is in a position to face and mitigate these risks.

Aircraft Production Rates

It is generally accepted in the aerospace industry that there is a large, untapped market for air travel and that, over the long term, aircraft production rates will, as they have for the past 100 years, continue to increase. However, these production rates can rapidly decline in a short period of time as was demonstrated in the early 1990's and in 2002. In 2002, the aerospace industry witnessed a large reduction in production of large (greater than 100 passengers) jets and in small (less than 20 passengers) jets. Regional jet (20 to 100 passengers) production also dropped, although not as dramatically. Regional jets may offer continued opportunity for short-term growth, but in the current industry environment of poor airline financial performance, airline bankruptcies and economic uncertainty, there is a risk that production rates for all types of aircraft will reduce further.

improving productivity

Aircraft Production Rates *continued*

Any further aircraft production rate reductions will immediately impact the Company's revenue. Management expects that a worst-case scenario of a further 50% reduction in all customer production rates, and hence a 50% reduction in revenue, would be mitigated through headcount and material cost reductions. After this mitigation, it is estimated that such a reduction would result in a 12-month cash outflow from operations of between $3 million and $5 million, depending on the timing.

Competitors

The Company competes with large firms in Europe, Asia and the United States. These competitors generally have stronger financial resources, whether through direct government ownership or corporate ownership. Another emerging competitive threat is from low-cost developing countries such as Russia, China and Central European and Eastern European countries.

Aggressive action by the Company's competitors could prevent the Company from achieving its organic growth targets. These risks are mitigated by a thorough bid review process, and through an absolute commitment throughout the Company to meeting customer expectations of on time delivery of a quality product. Except for the dual sourcing of Bombardier products, management expects that any negative impact of competitors' actions would be felt by the Company over the long term because of the pre-production time associated with new projects. However, in the case of dual sourcing, the impact could be sudden and would have an equivalent impact to manufacturer production rate reduction.

Cost Reductions

Approximately 60% of the Company's costs are labour-related and 40% are procurement-related and the procurement-related portion is increasing. The Company's wage rates are generally lower than its European and US competitors and higher than those in developing countries. Historically, the Company has not operated a sophisticated procurement system.

The Company projects year-on-year annual savings of approximately $5 million from its lean manufacturing and strategic outsourcing initiatives. These activities and the progress are performed and reviewed within a formal project management process, which ensures rapid corrective action if objectives are not being met. If the Company is unable to achieve these savings, profitability will not meet the required targets.

Outlook

positive outlook into 2004, 2005

The Company expects Boeing and Bombardier production rates throughout 2003 to remain at the same levels as at the end of 2002. The Cessna Sovereign program entered production in the last quarter of 2002 and the company will generate significant revenue from this program in 2003. Overall, revenue in 2003 is expected to be close to that in 2002, approximately $55 million. The Company has taken actions to reduce costs and, based on these actions and the progress in the development of the Company's operations, expects earnings to be close to break even. The outlook for 2004 and 2005 is even more positive as Boeing production rates are expected to increase. In addition, new revenue associated with the Cessna Citation CJ3 as it enters the production phase in the last quarter of 2003 which will further increase revenue. Improvements in productivity, and supply chain and working capital initiatives combined with increasing revenue are expected to yield profitability levels that meet stakeholder expectations.

Forward-Looking Statements

This management discussion and analysis should be read in conjunction with the Company's audited financial statements. Certain statements in this report and other oral and written statements made by the Company from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or project revenues, income, returns or other financial measures. These forward-looking are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following; (a) the extent to which the Company is able to achieve savings from its restructuring plans; (b) uncertainty in estimating the amount and timing of restructuring charges and related costs; (c) changes in worldwide economic and political conditions that impact interest and foreign exchange rates; (d) the occurrence of work stoppages and strikes at key facilities of the Company or the Company's customers or suppliers; (e) government funding and program approvals affecting products being developed or sold under government programs; (f) cost and delivery performance under various program and development contracts; (g) the adequacy of cost estimates for various customer care programs including servicing warranties; (h) the ability to control costs and successful implementation of various cost reduction programs; (I) the timing of certifications of new aircraft products; (j) the occurrence of further downturns in customer markets to which the Company products are sold or supplied or where the Company offers financing; (k) changes in aircraft delivery schedules or cancellation of orders; (l) the Company's ability to offset, through cost reductions, raw material price increases and pricing pressure brought by original equipment manufacturer customers; (m) the availability and cost of insurance; (n) pension plan income falling below current forecasts; (o) the Company's ability to maintain portfolio credit quality; (p) the Company's access to debt financing at competitive rates; and (q) uncertainty in estimating contingent liabilities and establishing reserves tailored to address such contingencies.

report of management

The accompanying financial statements of Avcorp Industries Inc. and all other information contained in the Annual Report are the responsibility of management. The financial statements were prepared in conformity with Canadian generally accepted accounting principles appropriate in the circumstances, in a manner consistent with the previous year, and include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, within an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management believes that the Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit Committee of the Board of Directors, composed of directors, none of whom are officers of the Company, meets with the independent auditors and management to discuss internal accounting controls, auditing, and financial reporting matters. The Committee reviews, with the independent auditors, the scope and results of the audit examination. The Committee also meets with the independent auditors, without management present, to ensure the independent auditors have free access to the directors. The Committee reviews the annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, PricewaterhouseCoopers, are appointed by the shareholders to examine the financial statements of Avcorp Industries Inc. and to conduct such tests and related procedures as they deem necessary in conformity with Canadian generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.

John Nicholson	**JOHN H. NICHOLSON** President & Chief Executive Officer	Ed Merlo	**ED MERLO** Vice President Finance & Corporate Secretary

report of auditors

To the shareholders of Avcorp Industries Inc.

We have audited the balance sheets of Avcorp Industries Inc. as at December 31, 2002 and September 30, 2001 and the statements of operations, deficit and cash flows for the fifteen-month period ended December 31, 2002 and the year ended September 30, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and September 30, 2001 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP	**PRICEWATERHOUSECOOPERS LLP** Chartered Accountants

Vancouver, British Columbia
March 14, 2003

balance sheets

expressed in thousands of Canadian dollars

	December 31 2002	September 30 2001
ASSETS		
Current Assets		
Bank	-	595
Accounts receivable	4,942	10,916
Inventories (notes 2 and 4)	14,439	19,700
Prepayments	421	805
	19,802	32,016
Note receivable (note 3)	1,674	-
Development costs (note 2)	3,409	-
Property, plant and equipment (note 7)	31,456	35,715
Investment (note 6)	1,527	-
Other Assets (note 5)	100	150
	57,968	67,881
LIABILITIES		
Current Liabilities		
Bank indebtedness (note 8)	6,033	-
Accounts payable and accrued liabilities	10,189	11,801
Deferred revenue	2,228	3,737
Current portion of long-term debt (note 9)	25,488	3,611
	43,938	19,149
Long-Term Debt (note 9)	337	30,824
	44,275	49,973
Shareholders' Equity		
Capital stock (note 11)	35,062	30,219
Deficit	(21,369)	(12,311)
	13,693	17,908
	57,968	67,881

Nature of operations & going concern (note 1)
Contingencies and commitments (note 14)
Subsequent event (note 19)

Approved by the Directors

David Levi, Chairman

J. Ian Flatt, Director

statements of **operations**

expressed in thousands of Canadian dollars except per share amounts

	15-month period ended December 31 2002	Year ended September 30 2001
Revenues (note 2)	**71,977**	79,911
Cost of sales and expenses	**66,790**	67,127
Cost of sales	**6,742**	5,596
Administrative and general expenses	**2,715**	2,512
Depreciation and amortization	**4,158**	3,887
Interest (note 12)	**80,405**	79,122
(Loss) earnings before income taxes	**(8,428)**	789
Income taxes (note 15)	**(120)**	(103)
(Loss) earnings from continuing operations	**(8,548)**	686
(Loss) earnings from discontinued operations	**(510)**	1,469
(Loss) net earnings for the period	**(9,058)**	2,155
(Loss) basic earnings per share		
Continuing operations	**(0.52)**	0.05
Discontinued operations	**(0.03)**	0.11
(Loss) diluted earnings per share		
Continuing operations	**(0.52)**	0.05
Discontinued operations	**(0.03)**	0.11
Weighted average number of basic and diluted shares outstanding (000's)	**16,354**	13,519

statements of **deficit**

expressed in thousands of Canadian dollars

	15-month period ended December 31 2002	Year ended September 30 2001
Deficit - Beginning of period	**(12,311)**	(14,466)
(Loss) earnings for the period	**(9,058)**	2,155
Deficit - End of period	**(21,369)**	(12,311)

statements of cash flows

expressed in thousands of Canadian dollars

	15-month period ended December 31 2002	Year ended September 30 2001
Cash flows from operating activities		
(Loss) earnings for the period	**(9,058)**	2,155
Items not affecting cash (note 13(a))		
Continuing operations	**2,215**	2,674
Discontinued operations	**182**	987
	(6,661)	5,816
Change in non-cash items related to operating activities (note 13(b))		
Continuing operations	**44**	5,737
Discontinued operations	**1,169**	(1,819)
	(5,448)	9,734
Cash flows from investing activities		
Proceeds from sale of discontinued operations (note 3)	**5,000**	-
Sale of property, plant and equipment - continuing operations	**1,094**	-
Investment - continuing operations (note 6)	**(1,527)**	-
Purchase of property, plant and equipment		
Continuing operations	**(1,379)**	(499)
Discontinued operations	**(301)**	(154)
	2,887	(653)
Cash flows from financing activities		
Increase (reduction) in bank indebtedness	**6,033**	(8,108)
Proceeds from settlement with equipment manufacturer (note 4)	**-**	1,486
Repayment of long-term debt		
Continuing operations	**(8,854)**	(3,811)
Discontinued operations	**(56)**	(167)
Issue of common shares	**5,031**	2,294
Share issue expense	**(188)**	(180)
	1,966	(8,486)
Net change in cash and cash equivalents	**(595)**	595
Cash and cash equivalents - Beginning of period	**595**	-
Cash and cash equivalents - End of period	**-**	595
Interest paid	**3,750**	3,183
Taxes paid	**380**	394

1. Nature of operations and going concern

The Company is a Canadian aerospace industry manufacturer. The Company is a single-source supplier for engineering design, manufacture and assembly of subassemblies and complete major structures for aircraft manufacturers.

The Company has changed its year-end date from September 30 to December 31. These financial statements cover the 15-month period from October 1, 2001 to December 31, 2002, with comparatives for the year ended September 30, 2001.

During 2002, the aerospace industry has been affected by significant uncertainties in the overall economy and the geopolitical situation, and particularly the uncertainties in the airline industry where several major airlines have liquidity concerns. These factors have affected the Company for 2002, resulting in reduced revenues and a net loss for the period of $9,058,000. The Company also has an accumulated deficit of $21,369,000 at December 31, 2002.

While the accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, the losses incurred by the Company and other factors raise significant uncertainty about the Company's ability to continue as a going concern.

Subsequent to the period-end, the Company has refinanced its existing bank debt as follows:

- Short-term loans totalling $1,100,000 were obtained from existing shareholders to provide temporary working capital (note 19)
- A short-term loan, available until June 30, 2003, of $12,000,000 was obtained from a Canadian chartered bank (note 19)
- Existing bank debt totalling $12,554,000 was repaid in full

The Company is continuing to work towards closing the sale and leaseback of its land and buildings, to source additional long-term financing partners and to renegotiate other long-term debt.

The Company has also implemented various plans to reduce costs and working capital in line with revenue expectations and to implement productivity and working capital improvement initiatives. Management is continuing to assess a variety of options to improve liquidity and to ensure cash resources are available to meet the Company's commitments. While management currently believes the strategy summarized above includes their best options, other alternatives may develop.

Although the Company has been successful in securing new and additional financing in the past, there continues to be significant uncertainty facing the Company. In addition, the Company and the industry in which it operates continue to face macroeconomic and geopolitical uncertainties. Management believes that the various financing alternatives currently being pursued make the use of the going concern basis appropriate, however, there can be no assurance that the Company will be successful with these initiatives.

Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate, such adjustments could be material.

2. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is accounted for under three methods.

a) Revenue from contracts with short production cycles is recognized as deliveries are made, ownership is transferred to the customer and there is reasonable assurance of collection.

b) Revenue from contracts with long production cycles having contracted firm orders is recognized using the percentage-of-completion method. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

c) Revenues from development contracts requiring estimates of revenues, cost of sales and delivery periods associated with forecasted orders is recognized using program accounting. Using this method, revenue is recognized in relation to units delivered.

   Cost of sales with respect to contracts accounted for under program accounting is determined at the estimated average unit cost computed as a percentage of the sale price of the aircraft. The estimated average unit cost under program accounting is calculated by applying to the sale price of each unit produced the ratio of total estimated production costs for the entire program over the estimated sale price of all units expected to be produced in the program. In the early stages

of a program a constant gross margin before amortization of non-recurring costs is achieved by deferring a portion of the actual costs incurred for each unit delivered. This excess over average production costs is recovered from sales of units anticipated to be produced later at lower than average costs as a result of the learning curve concept which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition and management action.

Contracts accounted for under program accounting are based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders, representing what management believes is a conservative estimate of the number of units to be sold.

Estimates of revenues, unit production costs and delivery periods associated with forecasted orders are an integral component of program accounting and management's ability to reasonably estimate these amounts is a requirement for the use of program accounting. Management periodically reviews its assumptions as to the size of programs and the estimated future costs and revenues associated with the programs. Adjustments on estimates are accounted for prospectively with the exception of anticipated losses which are recognized immediately in the period when losses are anticipated.

Inventories

Raw materials are valued at the lower of cost or net realizable value. The cost of raw materials is determined on a weighted average basis. Programs and contracts in progress and finished goods are valued at the lower of standard cost (which is calculated to approximate actual costs) or net realizable value. The cost of programs and contracts in progress is determined in accordance with the percentage-of-completion or program accounting methods.

Inventory costs on long-term programs include raw materials, labour and applicable overheads and comprise production costs and learning curve costs. Learning curve costs comprise production costs incurred in the early stages of a program, in excess of the average estimated unit cost for the entire program. Learning curve costs are capitalized and included in inventory to the extent that their recovery is regarded as reasonably assured from future program revenues. The learning curve concept anticipates a predictable decrease in unit cost as tasks and production techniques become more efficient through repetition and management action. In accordance with industry practice, current assets include inventoried costs relating to programs and contracts with long production cycles that are not expected to be realized within one year.

Research and development costs

Research costs are expensed as incurred. Development costs, less related government assistance, incurred on long-term programs that meet the criteria for deferral are capitalized and amortized over the numbers of shipsets management believes is a conservative estimate of units to be sold.

Translation of foreign currencies and financial instruments

Assets and liabilities in US dollars are converted into Canadian dollars at the rate of exchange prevailing at the period-end. Revenue and expenses in US dollars are converted into Canadian dollars at rates of exchange prevailing on transaction dates.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are measured using the rates that are expected to apply to taxable income in the periods in which the future income tax liability or asset is expected to be settled or retained.

Future income tax assets are evaluated and if realization is not considered "more likely than not" a valuation allowance is provided.

Property, plant and equipment

Property, plant and equipment are recorded at cost, plus capitalized interest on large construction projects, less related government grants and investment tax credits. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets or on a units-of-production basis:

Buildings	40 years
Machinery and equipment	2 - 15 years
Leasehold improvements	over the term of the lease

Convertible loans and debentures

Upon issuance, the convertible debentures and loans are classified into equity and financial components at their present value. The discount on the convertible debentures is accreted by way of a charge to earnings over the term of the debt.

2. Significant accounting policies *continued*

Earnings (loss) per common share

Basic earnings (loss) per common share has been calculated based on net (loss) earnings, using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

Deferred revenue

Deferred revenue represents non-refundable deposits received on long-term contracts, and is released to revenue as the individual units are produced and shipped to the customer.

Share purchase options

The Company from time to time issues shares purchase options as described in note 11(e). No compensation expense is recognized for this plan when shares or share options are issued. Consideration for shares issued on exercise of share purchase options is credited to capital stock.

3. Discontinued operations

Effective June 30, 2002, the Company sold its Integrated Products Division located in Quebec to the division's former management group for net book value (excluding cash) of approximately $6.674 million. Proceeds were comprised of $5 million cash, received on July 31, 2002 and a note receivable of $1.674 million, payable by September 30, 2004. The outstanding note receivable bears interest at the Royal Bank of Canada's prime rate plus 2% with the interest payable monthly.

The Company has entered into a supply agreement with Avior Integrated Products Inc. (Avior), the company formed by the sale of the division. Under this supply agreement, the Company expects to purchase $4 million worth of goods per year from Avior. In the event that the Company purchases less than $2.5 million in either of the next two 12-month periods, the note receivable will then be reduced by 20% of the shortfall.

The results from discontinued operations are summarized as follows:

Statements of discontinued operations	15-month period ended December 31 2002 $	Year ended September 30 2001 $
Revenues	13,622	21,544
(Loss) earnings from discontinued operations before taxes	(134)	1,469
Income taxes	-	-
(Loss) earnings from discontinued operations	(134)	1,469
Profit (loss) on disposition of net assets	-	-
Expenses incurred on disposition	(376)	-
	(376)	-
(Loss) net earnings from discontinued operations	(510)	1,469

Included in revenues from discontinued operations are sales made to the Aerostructures division totalling $3.161 million (2001 - $4.534 million). These interdivisional revenues were eliminated in prior years when the results for the Company were consolidated.

Statements of net assets of discontinued operations	December 31 2002 $	September 30 2001 $
Accounts receivable	-	3,157
Inventories	-	4,454
Prepaid expenses	-	291
Property, plant and equipment	-	2,049
Accounts payable and accrued liabilities	-	(1,640)
Deferred revenue	-	(371)
		7,940

3. Discontinued operations *continued*

Statements of cash flows of discontinued operations	15-month period ended December 31 2002 $	Year ended September 30 2001 $
Cash flows from operating activities	1,351	832
Cash flows from investing activities	(301)	(154)
Cash flows from financing activities	(56)	(167)
Net change in cash and cash equivalents	994	511

4. Inventories

	December 31 2002 $	September 30 2001 $
Raw materials	2,943	5,649
Programs and contracts in progress	11,251	12,274
Finished products	245	1,777
	14,439	19,700

For programs under commercial production, learning curve costs amounted to $2,207,000 (2001 - $610,000), which have yet to be recovered from future customer orders and are included in programs and contracts in progress. During fiscal 2001, the Company settled a contractual performance issue with a supplier of manufacturing equipment used in these programs. The proceeds of $1,486,000 were applied to the learning curve costs.

It is expected that proceeds from future sales will exceed the related costs in inventory as at December 31, 2002, plus the estimated additional production costs still to be incurred. However, if fewer than the program quantity of units are sold, or the costs to be incurred on the program exceed current estimates, unrecoverable costs may eventually be charged to expense in subsequent years.

5. Other asset

	December 31 2002 $	September 30 2001 $
Employee loan	100	150

During 2000, the Company advanced $150,000 to an officer and director, which is repayable on March 15, 2005. During the 15-month period ended December 31, 2002, $50,000 of this loan was forgiven. This loan is secured by a second charge on a property and is interest free.

6. Investment

On June 17, 2002, the Company acquired 5,264 Series D Preferred Stock of Eclipse Aviation Corporation for $1,527,000.

7. Property, plant and equipment

	December 31, 2002			September 30, 2001		
	Cost $	Accumulated depreciation $	Net $	Cost $	Accumulated depreciation $	Net $
Land	2,314	-	2,314	2,314	-	2,314
Buildings	12,762	1,410	11,352	12,625	1,015	11,610
Machinery and equipment	28,669	10,880	17,790	39,020	17,422	21,598
Leasehold improvements	-	-	-	1,136	943	193
	43,745	12,290	31,456	55,095	19,380	35,715

7. Property, plant and equipment *continued*

Included in machinery and equipment and assets under development are assets held under capital leases at a cost of $11,199,000 (2001 - $16,809,000) and accumulated depreciation of $4,505,000 (2001 - $4,271,000).

8. Bank indebtedness

The Company has an $8 million line of credit with interest at prime rate plus 2% per annum with a Canadian chartered bank, of which $6,033,000 had been drawn as at December 31, 2002 (2001 - $nil). Substantially all of the Company's assets are pledged as security under the bank's general security agreement (note 19).

9. Long-term debt

	December 31 2002 $	September 30 2001 $
Land and building mortgages (a)	13,798	16,813
Convertible debentures (b)	7,909	8,114
Equipment loans (c)	483	1,081
Capital leases (note 10)	2,691	7,196
Government loans (d)	196	664
Accrued government royalties	748	567
	25,825	34,435
Less: Current portion	(25,488)	(3,611)
	337	30,824

a) Land and building mortgages comprise:

i) $5,369,000 (2001- $8,384,000) first mortgage with the bank, which bears interest at 7.91% and is repayable in equal monthly instalments, with maturity in February 2003 ($4,345,000) and September 2003 ($678,000) (note 19).

ii) $4,429,000 (2001 - $4,429,000) second mortgage with the Province of British Columbia, which bears interest at 7.75% and is repayable in 40 quarterly instalments which will commence on January 1, 2003.

iii) $4,000,000 (2001 - $4,000,000) second mortgage with the Province of British Columbia, which bears interest at 7.5%, with maturity in December 2003. The loan is convertible into 1,600,000 common shares up to the date of maturity at a share price of $2.50 at the option of the Province of British Columbia. The Company can require conversion of the full amount of the loan in the event that the weighted average trading price of the Company's shares on the Toronto Stock Exchange is greater than 150% of the conversion price for 20 consecutive days (note 11(a)).

These mortgages are secured by land and building at the Delta, British Columbia facility. The mortgages with the Province of British Columbia also carry a general security agreement. The Company is in breach of its covenant within the security agreement with the Province of British Columbia. Accordingly, the mortgage has been classified as current.

b) During 1998, the Company issued $8,000,000 of 8% convertible debentures, with $5,000,000 due August 2003, interest payable semi-annually, and convertible at the option of the holder into 1,075,269 shares at a conversion price of $4.65, and $2,500,000 due March 2003, interest payable at maturity or date of conversion, and convertible at the option of the holder into 625,000 common shares of the Company at a conversion price of $4.00 per share. The Company is currently re-negotiating the terms of these debentures. The Company can require conversion of the full amount of either debenture in the event that the weighted average trading price of the Company's shares on the Toronto Stock Exchange is greater than 125% of the conversion price for 15 or 20 consecutive days depending on the specific convertible debenture. During 1998, $500,000 of these debentures was converted into 125,000 common shares at a share price of $4.00 (note 11(b)). During the year, $827,000 accrued interest payable from the $5,000,000 convertible debenture was repaid.

9. Long-term debt *continued*

These debentures comprise:

	December 31, 2002		September 30, 2001	
	Equity $	Debt $	Equity $	Debt $
Debentures due				
March 2003	62	2,494	62	2,477
August 2003	100	4,988	100	4,964
Accrued interest	-	427	-	673
	162	7,909	162	8,114

c) There are various equipment loans that have a weighted average interest rate of 6.92%. The loans are secured under the bank's general security agreement or by way of a charge against specific assets for those assets financed by parties other than the bank. The loans are repayable in equal instalments over a period of five years.

d) A manufacturing modernization program was partially financed under two non-interest-bearing government loans. The first loan of $1,452,000 is from the federal government and is repayable in seven consecutive annual instalments, which began on December 31, 1997. The second loan of $223,000 is from the Province of Quebec and the balance of $56,600 was repaid in fiscal 2002.

e) Principal repayments, including amounts due under capital leases, required in each of the next five years and thereafter are:

	$
2003	25,488
2004	337
2005	-
2006	-
2007	-
Thereafter	-
	25,825

10. Obligations and commitments under leases

The Company has committed to payments under certain capital leases for manufacturing machinery and equipment.

Future minimum lease payments required in each of the next five fiscal years and thereafter under leases are:

	December 31, 2002		September 30, 2001	
	Operating $	Capital $	Operating $	Capital $
2002	-	-	469	2,738
2003	-	2,810	469	2,874
2004	-	-	469	2,367
2005	-	-	469	-
2006	-	-	469	-
Thereafter	-	-	261	-
Total future minimum lease payments	-	2,810	2,606	7,979
Less: Imputed interest	-	119	-	783
Balance of obligation under capital leases included in long-term debt (note 9)	-	2,691	2,606	7,196

The capital leases provide for purchase options amounting to $1,463,000 (2001 - $2,168,000) exercisable at the termination of the lease period.

11. Capital stock

Authorized

Unlimited as to number

First preferred and second preferred shares, issuable in series, the terms of which will be determined by the directors at the time of creation of each series

Common shares issued or reserved:

	Number of shares	Amount $
September 30, 2000	13,300,652	28,105
Share issue (d)	1,311,000	2,114
September 30, 2001	14,611,652	30,219
Share issue (c)	4,085,780	4,843
December 31, 2002	18,697,432	35,062

a) The Company has reserved a total of 1,600,000 common shares, the maximum number that may be acquired pursuant to the Province of British Columbia financing (note 9(a)).

b) The Company has reserved a total of 1,700,269 common shares, the maximum number that may be acquired pursuant to the convertible debentures (note 9(b)).

c) During the year, the following capital stock transactions took place:

i) A convertible debenture holder acquired 590,560 common shares of the Company at a price of $1.40 per common share. Costs of $13,000 were deducted from the proceeds in recording $814,000 as capital stock.

ii) The Company issued 3,400,000 units in a private placement. Each unit was issued at $1.20 and consisted of one common share and 0.5 non-transferrable share purchase warrants. Each warrant entitles the holder to purchase one additional common share at a price of $1.30 for a 12-month period expiring July 2003. The costs of the private placement amounting to $175,000 were deducted from the proceeds in recording $3,905,000 as capital stock.

iii) The Company issued 95,220 common shares as part of the 2001 bonus payment to certain employees. An amount of $124,000 was added to capital stock.

d) During the year ended September 30, 2001, the Company issued 1,311,000 units in a private placement. Each unit was issued at $1.75 and consisted of one common share and 0.65 non-transferrable share purchase warrants. Each warrant entities the holder to purchase one additional common share at a price of $1.75 for an 18-month period expiring February 2003. Subsequent to the period-end, the warrants expired unexercised. The costs of the private placement amounting to $180,000 were deducted from the proceeds in recording $2,114,000 as capital stock.

e) The Company's incentive stock option plan is administered by the Board of Directors. The maximum number of common shares that may be optioned is 4,000,000. The period during which an option is exercisable shall not exceed 10 years. A summary of the Company's stock option plan as of December 31, 2002 and September 30, 2001, and changes during the periods ending on those dates, is presented below:

	December 31, 2002		September 30, 2001	
	Shares ('000)	Weighted average exercise price $	Shares ('000)	Weighted average exercise price $
Outstanding - Beginning of year	891	1.68	1,218	2.10
Granted	533	1.48	243	1.51
Exercised	(32)	1.30	-	-
Forfeited	(519)	1.44	(570)	2.52
Outstanding - End of year	873	1.47	891	1.68

11. Capital stock *continued*

The following tables summarize fixed stock options outstanding and exercisable:

	Option price $	Number (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price $
Options outstanding and exercisable at December 31, 2002	1.00 - 1.50	873	3.96	1.47
		873	3.96	1.47

	Option price $	Number (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price $
Options outstanding and exercisable at September 30, 2001	1.00 - 1.50	180	2.97	1.18
	1.50 - 2.00	658	3.92	1.70
	2.00 - 2.50	18	4.18	2.10
	3.00 - 3.50	-	-	-
	3.50 - 4.00	35	1.08	3.60
		891	3.24	1.68

12. Interest expense

	15-month period ended December 31 2002 $	Year ended September 30 2001 $
Interest on capital leases	323	717
Interest on other long-term debt	2,940	2,018
Interest on short-term debt	895	1,152
	4,158	3,887

13. Supplementary cash flow information

a) Items not affecting cash:

	15-month period ended December 31 2002 $	Year ended September 30 2001 $
Depreciation and amortization	3,257	3,124
Allowance for doubtful accounts	(128)	78
Write down of inventory	(441)	-
Other items	(291)	459
	2,397	3,661

b) Changes in non-cash items:

	15-month period ended December 31 2002 $	Year ended September 30 2001 $
Accounts receivable	3,810	663
Inventories	(2,253)	1,595
Prepayments and other assets	291	(49)
Accounts payable and accrued liabilities	(635)	1,709
	1,213	3,918

13. Supplementary cash flow information *continued*

c) During the fifteen-month period ended December 31, 2002 and the year ended September 30, 2001, the Company conducted non-cash operating, investing and financing activities as follows:

	December 31 2002 $	September 30 2001 $
Non-cash operating activities		
Convertible debentures		
Interest accrual	(300)	(232)
Royalties accrued on CRJ700 program	(442)	(305)
	(742)	(537)
Non-cash financing activities		
Convertible debentures		
Interest accrual	300	232
Royalties accrued on CRJ700 program	442	305
	742	537

14. Contingencies and commitments

a) During 1998, an action was commenced against the Company for an amount of $1 million in respect of alleged future remediation costs relating to a property previously owned by the Company. A statement of defence has been filed. Management believes it is too early to assess the likelihood of the outcome of this litigation, and accordingly, no amounts have been accrued for in these financial statements.

b) The Company has agreements with Technology Partnerships Canada (TPC), under which TPC will make cash contributions to the Company's various projects, up to a cumulative maximum of $8,912,000. In return, a royalty will be paid to TPC by the Company based on the selling price and units sold. During the fifteen-month period ended December 31, 2002, the Company received $846,000 from TPC. This amount was credited to development costs as it related directly to certain long-term programs.

As at December 31, 2002, royalties of $748,000 (2001 - $nil) are payable and accrued for.

c) The Company entered into a 10-year outsourcing agreement ending January 1, 2012 for information technology services. The annual commitment under this agreement approximates $145,000.

15. Income taxes

a) A reconciliation of income taxes at statutory rates to actual income taxes is as follows:

	15-month period ended December 31, 2002 $	Year ended September 30, 2001 $
Combined basic income tax rate	*39%*	*41.6%*
Income tax (recovery) expense at the basic income tax rate	(3,486)	939
Manufacturing and processing rate reduction	302	(141)
Large corporation tax	120	103
Other	(375)	13
Change in statutory income tax rate	(633)	-
Change in valuation allowance	4,192	(811)
	120	103

b) The tax effect of temporary differences that give rise to significant portions of future tax assets and future tax liabilities as at December 31, 2002 as follows:

	15-month period ended December 31, 2002 $	Year ended September 30, 2001 $
Future income tax assets		
Non-capital losses	2,796	1,697
Scientific research expenditures	2,755	1,328
Capital losses	988	897
Property, plant and equipment	3,491	2,200
Expenses not deductible in current period	352	225
Financing costs	91	(66)
	10,473	6,281
Net future income tax asset	10,473	6,281
Less: Valuation allowance	(10,473)	(6,281)
	-	-

15. Income taxes *continued*

c) The Company has available non-capital loss carry-forwards totalling approximately $7,851,000. These losses expire as follows:

Loss carry-forwards $	Expiry date
1,463	2007
4,817	2008
1,571	2009

d) The Company has approximately $22,925,000 of current and prior years' unclaimed capital cost allowances that may be claimed against future taxable income.

e) The Company has approximately $7,734,000 of unclaimed research and development costs that may be claimed against future taxable income.

f) The Company has accumulated net capital losses for tax purposes of approximately $2,773,000 which may be carried forward and used to reduce taxable capital gains in future years.

g) The Company has income tax credits (ITC's) from Scientific Research and Experimental Development expenditures which can be applied to reduce income taxes payable in future years. The ITC's expire as follows:

ITC $	Expiry date
1,603	2007
705	2008

No future tax benefit has been recognized in these financial statements with respect to these losses.

16. Financial instruments

Financial risks

The financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency rate risk.

Credit risk

Concentrations of credit risk in trade accounts receivable are with major aircraft manufacturers in the North American aerospace industry.

Fair values

The fair values of the Company's accounts receivable, other asset, bank indebtedness, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of the note receivable is estimated to approximate its carrying value as it bears interest at rates which reflect current market rates of similar financial instruments. Management has assessed that it is not practical to determine the fair value of the long-term investment which represents 5,264 Series D Preferred Stock of Eclipse Aviation Corporation as these shares are not traded in an organized financial market. The fair value of the long-term debt is estimated using present value techniques and assumptions concerning the amount and timing of expected future cash flows and discount rates which reflect current market rates on similar financial instruments.

	December 31, 2002		September 30, 2001	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Long-term debt	25,825	24,970	34,435	34,264

17. Economic dependence and segmented information

a) Sales to two major customers, which are covered by several programs and contracts, accounted for approximately 92% (2001 - 92%) of sales.

b) The Company operates in one industry that involves the manufacture and sale of aerospace products. As a result, the Company has only one operating segment. All of the Company's operations are in Canada.

c) Export sales were approximately $38,638,000 (2001 - $43,734,000).

18. Related party transactions

The Company paid a finder's fee of $26,400 (2001 - $137,655) with respect to the private placement disclosed in note 11(c) to a company which is related to a significant shareholder.

Other related party transactions are disclosed elsewhere in these financial statements.

19. Subsequent event

As discussed in note 1, subsequent to year-end, the Company refinanced its existing bank debt as follows:

Short-term loans totalling $1,100,000 were obtained from existing shareholders to provide temporary working capital. These loans bear interest at 12% per annum, compounded monthly and are repayable on demand. Security over these loans is provided by a general security agreement, ranked prior to all other indebtedness of the Company other than existing registered charges and security interests.

In connection with the short-term loans of $1,100,000 from existing shareholders, a total of 3,652,450 common share purchase warrants were issued at a price of $0.38 per share. These warrants cannot be exercised prior to June 14, 2003 and expire on August 14, 2005.

A short-term loan of $12,000,000 was obtained from a Canadian chartered bank, bearing interest at the Bank's Prime plus 1.75% per annum. This facility is due on demand and has been made available until the earlier of June 30, 2003 and the successful completion of the sale and leaseback of the Company's land and buildings.

As a condition of obtaining this loan, the following security has been provided:

- $10,000,000 demand mortgage and assignment of rents creating a first fixed financial charge over the buildings owned by the Company
- A general security agreement creating a first fixed charge over all present and after acquired personal property of the Company
- A floating charge over land owned by the Company
- Assignment of all risk insurance on all lands, buildings, equipment and inventory owned by the Company to the Bank
- Joint and several guarantees of the indebtedness of the Company executed by certain shareholders
- An agreement between certain shareholders (the "sponsors") and the Bank under which the sponsors jointly and severally agree, at the request of the Bank, to purchase the loan and security documents in exchange for payment to the Bank of the full amount of principal and interest outstanding under the loan
- An unconditional, irrevocable standby letter of credit, or a first security interest over cash, in the amount of $2,000,000 in favour of the Bank provided by certain shareholders
- Environmental indemnity from certain shareholders

AVCORP INDUSTRIES INC.

Board of Directors

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Managing Director
Coastal Aerospace Group
Warwick, Bermuda

J. Ian Flatt (1*) (2)
Chairman
The Coastal Group
Winnipeg, Manitoba

Paul Kalil
Chief Operating Officer,
Avcorp Industries Inc.
Managing Director
Coastal Aerospace Group
Vancouver, British Columbia

David Levi (2)
Chairman of the Board
Avcorp Industries Inc.
President and CEO
GrowthWorks Capital Ltd.
Vancouver, British Columbia

John H. Nicholson
President and CEO
Avcorp Industries Inc.
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Michael C. Scholz (1) (2*)
President
Great Canadian Gaming Corporation
West Vancouver, British Columbia

Winston Wong (1)
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(1) Member of the Audit and Corporate Governance Committee
(2) Member of the Human Resources and Compensation Committee
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